

CITY OF AUBURN
ANNUAL FINANCIAL REPORT
JUNE 30, 2003

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INTRODUCTORY SECTION

CITY OF AUBURN
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ELECTED OFFICIALS

<u>Term Expires</u>	<u>City Council</u>	<u>Office</u>
November, 2004	Kathy Sands	Mayor
November, 2004	Cheryl Maki	Member
November, 2006	Kevin Hanley	Member
November, 2006	Mike Holmes	Member
November, 2006	Alice M. Singh	Member

City Treasurer

November, 2004	George Williams
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City Clerk

November, 2004	Joe Labrie
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**INDEPENDENT AUDITOR'S
REPORT**

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INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor and Members of the City Council
City of Auburn
Auburn, California

We have audited the accompanying basic financial statements of the City of Auburn (the City) as of and for the year ended June 30, 2003 as listed in the Table of Contents. These basic financial statements are the responsibility of the City of Auburn's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Auburn as of June 30, 2003, and the results of its operations and cash flows of its business type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2003 on our consideration of the City of Auburn's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of City of Auburn taken as a whole. The accompanying supplementary information including the Schedule of Federal Financial Assistance is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit organizations, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mann, Urrutia Nelson, CPAs

Roseville, CA
October 10, 2003

PRINCIPALS

Chris A. Mann, CPA, CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CVA ♦ Christine L. Collins ♦ Kriss Ann Mann, CPA, CCPS

MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF AUBURN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE, 30, 2003

Our discussion and analysis of City of Auburn's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the City's basic financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

The City's net assets used for governmental activities increased significantly this year reflecting the capitalization of transportation infrastructure related to: traffic control signals (at Maidu Drive and Nevada Street), roadway overlay work (in the Skyridge subdivision) and the multimodal rail station (located on Nevada Street)

- The City's net assets used for business-type activities increased significantly this year as a result of land acquisition (the Denham property) for airport expansion and also the initial phase of the new hangar project, which are reported as a business-type activity. These improvements were completed at a cost of \$2.8 million. These improvements were funded primarily through revenues granted by the U.S. Department of Transportation through the Federal Aviation Authority (\$2.0 million) and a 15 year loan from the State of California Department of Aeronautics (\$1.0 million).

The City incurred a modest (\$0.4 million) increase to long-term debt position, during this fiscal period resulting from the combined effect of an increase in business-type (\$0.7 million increase) and governmental (\$0.3 million decrease) activities. The increase in business-type activities reflects the combined effect of scheduled payments (\$300 thousand) reducing the loan for upgrade of the wastewater treatment facility to the State Water Resources Control Board (State of California) and the incurring new debt (\$1.0 million) with the State Department of Aeronautics for construction (in progress) of new hangars at the Auburn Municipal Airport. The reduction in governmental activities (\$300 thousand) resulted mainly from the retirement of General Obligation Bonds for the 1987 Civic Center Renovation Project and the 1993 Certificates of Participation for the Public Safety Building Project.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 15 and 16) provide information about the activities as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 17. For governmental activities, these statements explain how programs and services were financed in the short term (the most recently completed fiscal year), as well as the amounts remaining available for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. In addition to mandatory reporting for the City's General Fund, the Transportation Fund has been identified as a major governmental fund. The City's Airport and Sewer Operations are reported as major business-type activity funds. Fund financial statements also provide financial information about activities for which the City acts solely as a trustee or agent (fiduciary) for the benefit of individuals and entities external to this governmental unit.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 15. One of the most important questions asked about the City's finances is, *"Is the City as a whole better off or worse off as a result of the year's activities?"* The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector business entities. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid out.

CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE, 30, 2003

These two statements report the City's net assets and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator or whether its *financial health* is improving or deteriorating. To reach a conclusion on this issue, you may need to consider other matters of a non-financial nature, such as:

- the condition of the City's infrastructure (streets and roadways, storm drainage improvements, sewer system, civic center and airport facilities), or
- the economic vitality of the core business districts, or
- the adequacy of emergency response times of police and fire personnel,

in order to properly assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three (3) kinds of activities:

1. Governmental activities: most of the City's basic services are reported here, including the operations of the police, fire, building inspection, public works and general administration. Taxes (primarily property and sales), licenses, permits, state and federal grants, and franchise payments finance most of these activities.
2. Business-type activities: the City charges fees to customers to cover most of the cost of certain services and programs it provides. The City's wastewater treatment and airport operations are reported here.
3. Component units: the City includes two separate legal entities in its report – the City of Auburn and its redevelopment agency the Auburn Urban Development Authority. Although legally separate, the "component unit" is important because the City is financially accountable for the redevelopment agency.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 17. The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law (Gas Tax and Law Enforcement Grants funds) and by bond covenants (Auburn Bluffs 1915 Assessment Bonds). However, the City Council establishes many other funds to help it control and manage money for particular purposes (for example, the Highway 49 Beautification project) or to show that it is meeting legal responsibilities for using certain taxes, grants and other money (like grants received from the U.S. Department of Housing and Urban Development for small business loans). The City's two (2) types of funds – *governmental* and *proprietary* (business-type) – use different accounting approaches.

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds, and the balances left at year-end that may be available for future spending. These funds are reported using an accounting method described as *modified accrual* accounting. This accounting method (basis) measures the availability of cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations, and the basic services it provides to residents and visitors of the City. Governmental fund information helps you to determine what financial resources are available to be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and the governmental *funds*, in a reconciliation, at the bottom of the fund financial statements.

CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE, 30, 2003

- **Proprietary funds:** When the City charges customers for the full cost for the services it provides, those services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City's enterprise funds (Airport and Sewer Operations) are the business-type activities that we report in the government-wide statements, but the fund statements provide more detail and additional information, such as cash flows.

The City as Trustee

The City is the trustee (*fiduciary*) in its capacity as a collection agent of development impact fees for several other local governmental agencies (Auburn Recreation District and Placer County). Additionally, the City receives subscriber fees (for operation of public, educational and governmental channels) collected by its Community Antenna Television franchisee (Charter Communications, Inc.) on behalf of Auburn Area Access, Inc. (a non-profit corporation for public access television programs). All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the City's other financial statements, because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

The City's combined net assets for the year ending June 30, 2003 are summarized (Table 1), as follows:

<p style="text-align: center;">Table 1 Net Assets (dollars in Millions)</p>						
	<p style="text-align: center;">Governmental Activities</p>		<p style="text-align: center;">Business-type Activities</p>		<p style="text-align: center;">Total Primary Government</p>	
	2002	2003	2002	2003	2002	2003
Current and other assets	\$ 12.0	\$ 12.2	\$ 4.6	\$ 6.1	\$ 16.6	\$ 18.3
Capital assets	<u>5.8</u>	<u>7.5</u>	<u>16.2</u>	<u>18.8</u>	<u>22.0</u>	<u>26.3</u>
Total assets	<u>17.8</u>	<u>19.7</u>	<u>20.8</u>	<u>24.9</u>	<u>38.6</u>	<u>44.6</u>
Long-term debt outstanding	(6.6)	(6.3)	(5.3)	(6.0)	(11.9)	(12.3)
Other liabilities	<u>(2.2)</u>	<u>(1.8)</u>	<u>(0.2)</u>	<u>(0.5)</u>	<u>(2.4)</u>	<u>(2.3)</u>
Total liabilities	<u>(8.8)</u>	<u>(8.1)</u>	<u>(5.5)</u>	<u>\$ (6.5)</u>	<u>(14.3)</u>	<u>(14.6)</u>
Net assets:						
Invested in capital assets, net of debt	2.2	4.1	11.1	12.8	13.3	16.9
Restricted	0.6	0.7	0.0	0.0	0.6	0.7
Unrestricted	<u>6.2</u>	<u>6.8</u>	<u>4.1</u>	<u>5.6</u>	<u>10.3</u>	<u>12.4</u>
Total net assets	\$ <u>9.0</u>	\$ <u>11.6</u>	\$ <u>15.2</u>	\$ <u>18.4</u>	\$ <u>24.2</u>	\$ <u>30.0</u>

CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE, 30, 2003

The amount reported for net assets of Governmental activities does not include the value of the City's infrastructure (roadways, bridges and storm drainage improvements) constructed prior to July 1, 2002. The amount reported for the "net value" of these assets will increase significantly (possibly by as much as \$16 million), once estimates of the value of these improvements have been determined. The amount reported for net assets of Business-type activities increased substantially (\$2.6 million) this fiscal period reflecting the acquisition of additional land and the initial phase of new hangars at the Auburn Municipal Airport.

The amount reported for long-term debt for Business-type activities increased significantly (\$0.7 million) this fiscal period, reflecting the net effect of scheduled payments (\$300 thousand) reducing State loans for the upgrade of the City's Wastewater Treatment Facility and the incurring of new debt (\$1.0 million) with the State Department of Aeronautics for construction of new hangars at the Auburn Municipal Airport. This increase in debt did not have an adverse effect on net assets, as non-current assets (property, plant and equipment) were increased in an amount equal to the increase in long-term debt. In contrast, the amount reported for long-term debt for Governmental activities decreased modestly (\$300 thousand) this fiscal period, reflecting retirement of General Obligation Bonds issued for the 1987 Civic Center Renovation Project and 1993 Certificates of Participation for the Public Safety Building Project.

Table 2
Changes in Net Assets
(in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2003	2002	2003	2002	2003
Revenues						
Program revenues:						
Charges for services	\$ 1.8	\$ 1.6	\$ 2.9	\$ 3.1	\$ 4.7	\$ 4.7
Operating grants	1.3	2.1			1.3	2.1
Capital grants and contributions	0.6	1.4	4.2	2.3	4.8	3.7
General revenues:						
Property taxes	2.1	2.2		0.1	2.1	2.2
Sales taxes	2.4	2.8			2.4	2.8
Other taxes	0.3	0.2			0.3	0.2
Licenses & permits	0.2	0.2			0.2	0.2
Franchises	0.5	0.6			0.5	0.6
Use of money & property	0.8	0.8	0.4	0.5	1.2	1.3
Other revenues	<u>0.1</u>	<u>0.1</u>			<u>0.1</u>	<u>0.1</u>
Total revenues	<u>10.1</u>	<u>12.0</u>	<u>7.5</u>	<u>6.0</u>	<u>17.6</u>	<u>17.9</u>
Program expenses						
General government	1.2	1.4			1.2	1.4
Public safety & health	3.9	4.3	2.3	2.4	6.1	6.7
Public ways & facilities	2.5	1.8	0.5	0.5	3.0	2.3
Environment & development	1.4	1.5			1.4	1.5
Interest on long-term debt	<u>0.3</u>	<u>0.4</u>			<u>0.3</u>	<u>0.4</u>
Total expenses	<u>9.3</u>	<u>9.4</u>	<u>2.8</u>	<u>2.9</u>	<u>12.0</u>	<u>12.3</u>
Excess (deficiency)						
Before special items and						
Transfers	0.8	2.6	4.7	3.1	5.6	5.6
Transfers	<u>0.0</u>	<u>0.0</u>	<u>(0.0)</u>	<u>0.0</u>	<u>---</u>	<u>---</u>
Increase (decrease) in net						
Assets	\$ <u>0.8</u>	\$ <u>2.6</u>	\$ <u>4.7</u>	\$ <u>3.1</u>	\$ <u>5.6</u>	\$ <u>5.6</u>

CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE, 30, 2003

The increase in net assets for governmental activities reflects the use of an accumulation of transportation development act moneys (TDA taxes) used for roadway and traffic control (traffic signal) infrastructure improvements completed in the current fiscal period. The increase in net assets for business-type activities reflects an accumulation of sewer user fees to be used for collection system maintenance and repairs and future contributions to the funding of a regional wastewater treatment facility, and the receipt of federal funds for capital improvements to the Auburn Municipal Airport facility (land acquisition and hangar construction project).

FINANCIAL RATIOS
(dollars in millions)

"Working Capital" is the amount by which total assets exceed total liabilities. The *Current Ratio*, which compares current assets to current liabilities, is an indicator of the ability to pay current obligations.

Working Capital (in millions)	1996	1997	1998	1999	2000	2001	2002	2003
Entity Wide Summary	\$8.2	\$10.5	\$12.7	\$17.3	\$18.2	\$22.4	\$24.3	\$29.9
Governmental	\$4.3	\$ 4.7	\$ 4.9	\$ 6.1	\$ 7.6	\$ 9.8	\$ 9.0	\$11.6
Business-type	\$3.9	\$ 5.8	\$ 7.8	\$11.1	\$10.5	\$12.6	\$15.3	\$18.3

Current Ratio	1996	1997	1998	1999	2000	2001	2002	2003
Entity Wide Summary	9.33	4.18	4.63	5.61	3.43	3.48	6.49	7.91
Governmental	6.21	5.84	4.73	5.87	6.09	5.97	5.23	6.78
Business-type	25.78	3.49	4.58	5.48	2.76	2.79	24.63	12.20

The amount of and the ratio for Working Capital can be used to assess the financial stability of the City over an extended period of time. Analysis of these statistics demonstrate sustained improvement in the City's ability to finance its current operations with cash. The stability of the Current Ratio and the amounts reported for Working Capital in governmental activities demonstrate that the City has not financed its operations with an increasing proportion of debt. The decrease in Current Ratio combined with the increase in Working Capital in business-type activities demonstrates that the City has financed expansion of these activities (wastewater treatment and airport operations) by substantially increasing the proportion of debt related to this activity.

"Days Cash and Investments Available" reflect the number of days normal operations could continue with no revenue collection. Analysis of this statistic indicates there has been a significant strengthening in the short-term financial condition of the City over the past eight (8) years. As of June 30, 2003 there was sufficient cash available in the City Treasury to finance City activities for approximately fifteen (15) months. This is a significant improvement of the eight (8) month reserves available in 1996.

Days Cash & Investments	1996	1997	1998	1999	2000	2001	2002	2003
Entity Wide Summary	229	270	276	380	404	488	360	442
Governmental	239	269	282	277	399	442	337	402
Business-type	183	275	262	779	415	607	459	571

CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE, 30, 2003

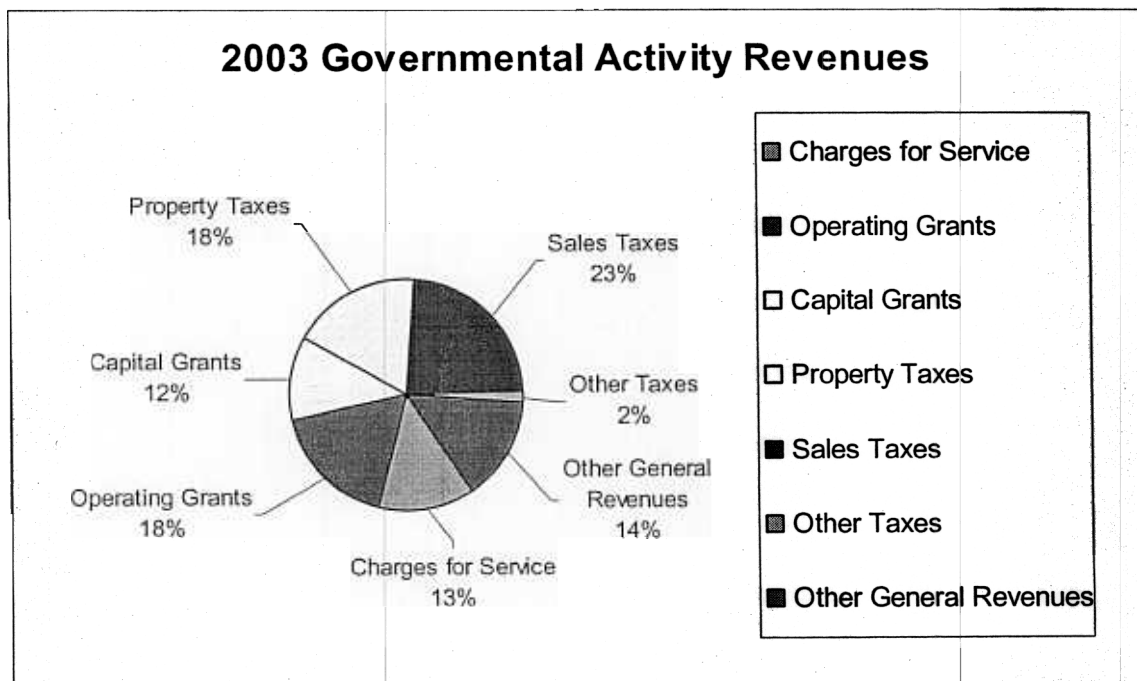
"Liabilities to Net Assets" indicates the extent of borrowing, by the City.

Liabilities to Net Assets	1996	1997	1998	1999	2000	2001	2002	2003
Entity Wide Summary	45%	50%	43%	35%	58%	51%	60%	48%
Governmental	58%	54%	52%	44%	59%	48%	98%	70%
Business-type	4%	40%	28%	22%	57%	56%	37%	36%

"Liabilities to Net Assets" indicate that the City has incurred a significantly high percentage of debt for the operation of governmental activities. This statistic reflects the capital cost of renovating the Civic Center and Public Safety Buildings. The Civic Center project was funded through a voter approved tax override measure (General Obligation Bonds issued in 1987 to mature in 2007). The Public Safety Buildings project was funded through Certificates of Participation, which were retired (in their entirety -- \$2.3 million) on September 1, 2003. Accordingly, there will be a significant improvement in this financial statistic at the close of the next (2003-04) fiscal year. The statistic also indicates a decreasing percentage of debt for the operation of business-type activities, reflecting the retirement of debt related to the renovation to City's Wastewater Treatment Facility, during the past two (2) fiscal years. These renovations (approximately \$6.8 million) were primarily (82%) funded through loans (20 year) from the State of California, Water Resources Control Board. A significant portion of this debt (\$1.5 million) was discharged with a prepayment of an Installment Sales Agreement with Chelsea Leasing, Inc. (the "local match" -- 18% -- portion) of the project financing, in the previous (2001-02) fiscal year.

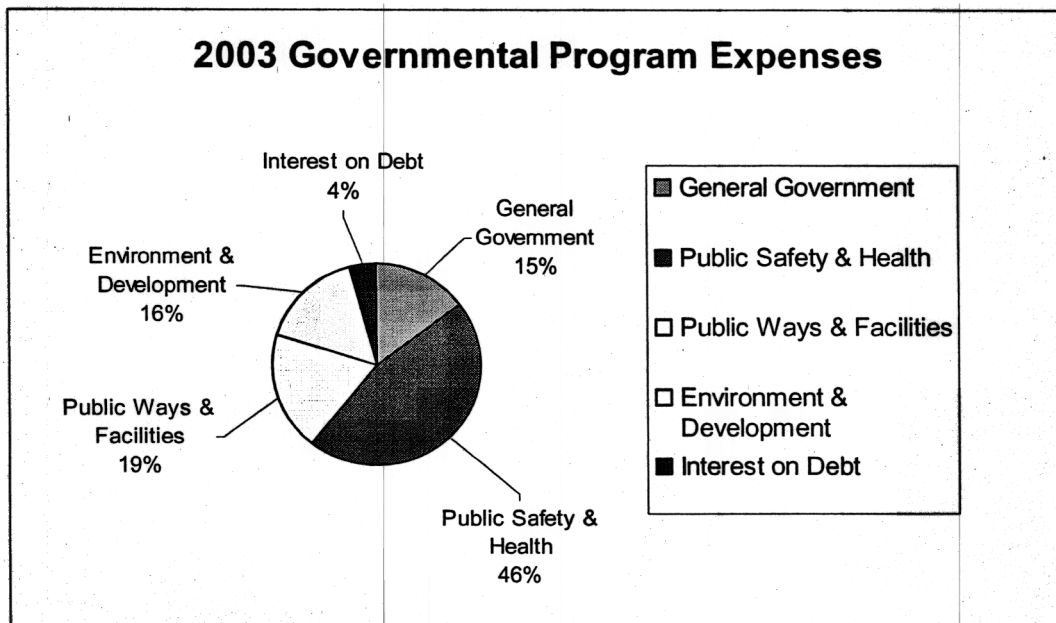
Governmental Activities

Tax revenues (as presented in the following chart) account for 43% of governmental activity revenues. Property and sales taxes represent approximately 95% of all taxes collected. Grant and entitlement transfers from other governments account for 30% of governmental activity revenues, and are primarily comprised of apportionment of Motor Vehicle fees (approximately \$750,000) by the State, and law enforcement grants (approximately \$200,000) from the State of California. Other general revenues include licenses, permits, land lease and franchise payments. Charges for services only account for 13% of governmental activity revenues.



CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE, 30, 2003

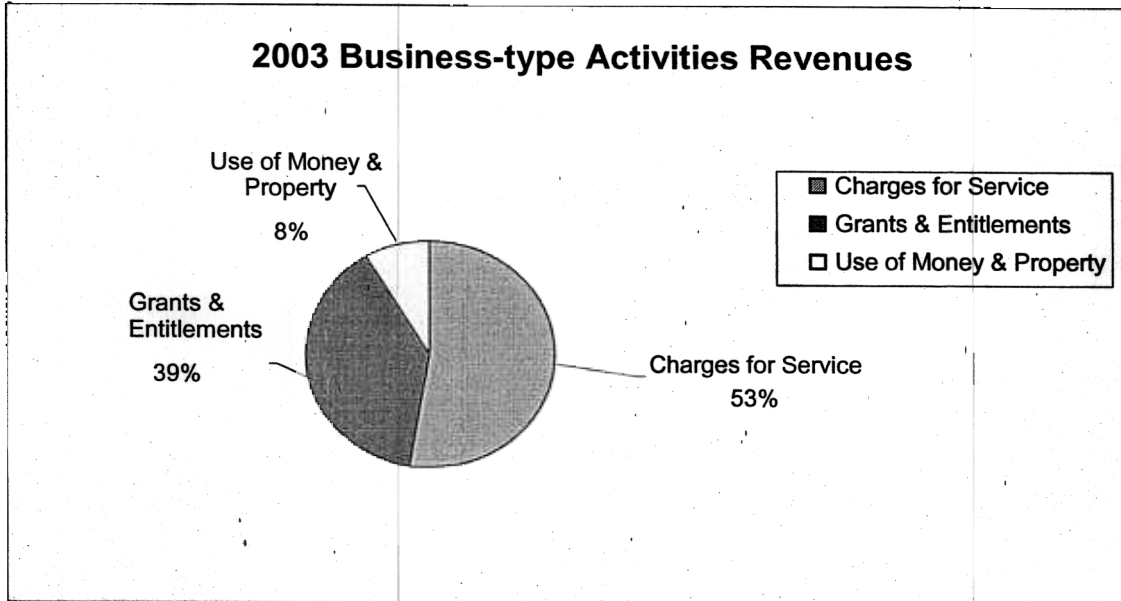
The largest (46%) governmental program expense category is Public Safety and Health, which in comprised primarily of Police (approximately \$2,600,000) and Fire (\$950,000) protection services. The Administrative category includes general governmental support operations including the Community Development Department, Finance Department and insurance programs (approximately \$636,000) and the offices of the: City Manager, City Attorney and City Clerk (approximately \$502,000). Operations of the Public Works department makes up most (85%) of the Public Ways & Facilities category, and is made up of both maintenance (approximately \$575,000) and engineering (\$185,000) divisions. The Interest on Debt category reflects financing costs related to the renovation of the Public Safety (Police Services) building, located at 1215 Lincoln Way (adjacent to the Civic Center Building). This debt was originally scheduled to payout in fiscal year 2020-21; however, sufficient surplus funds from the City's General Fund were set aside (reserved), during the pervious fiscal periods to allow for repayment of that debt (in its entirety – \$2.3 million on September , 2003.



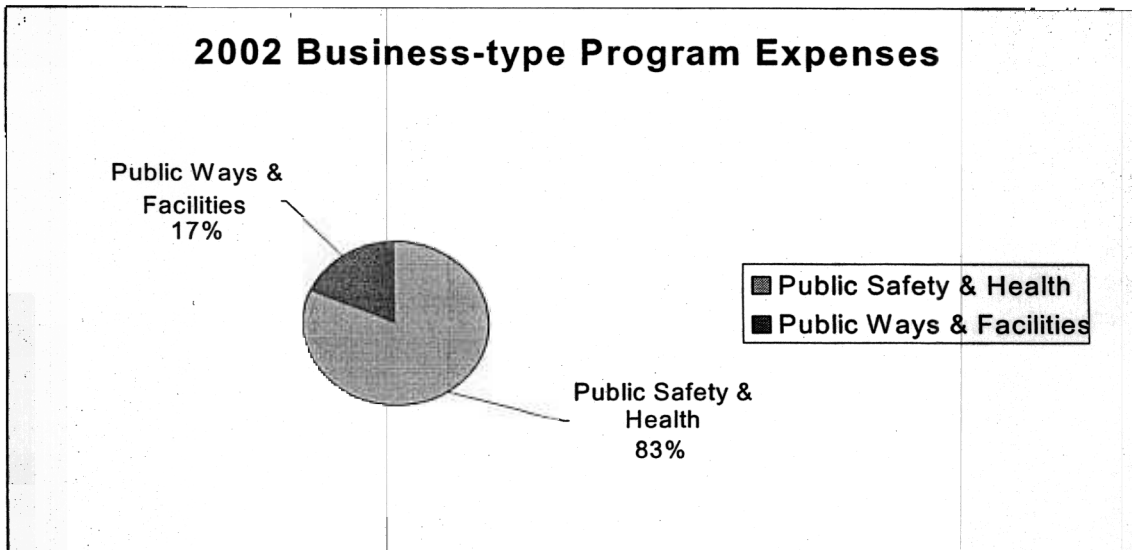
CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE, 30, 2003

Business-type Activities

Revenue in the City's business type activities decreased significantly (\$1.5 million) during this fiscal period, reflecting a reduction in federal grant funding of improvements at the Auburn Municipal Airport. A summary of business-type revenues is presented in the following chart:



A summary of business-type activity expenses is presented in the following chart:

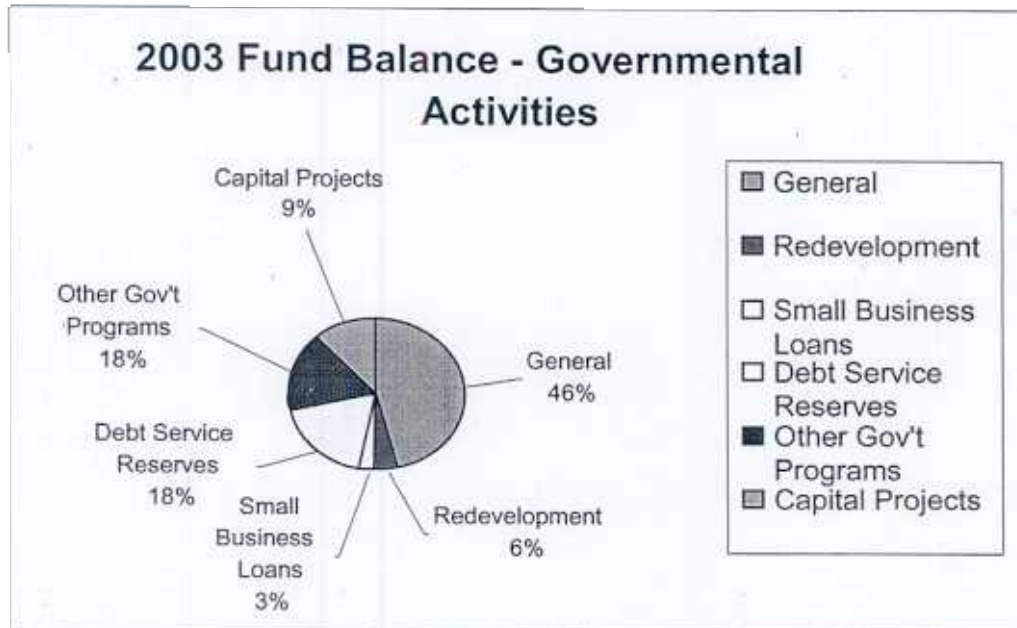


CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE, 30, 2003

THE CITY'S FUNDS

Governmental Funds

As the City completed the last fiscal year (2002-03), its governmental funds (as presented in the balance sheet on page 17) reported a *combined* fund balance of \$10.4 million. A graphical summary of these amounts follows:



The City's General Fund makes up the majority (\$4.8 million) of this amount. Significant sums (\$1.9 million) are held in reserves for future debt service payments, and also in capital project accounts (\$1.0 million) from development impact fees. The remainder of these funds are held by the City's redevelopment agency (a legally independent reporting *component unit*), the Auburn Urban Development Authority and in an Economic Development Block Grant (EDBG) fund (for small business loans) and are restricted to specific programs.

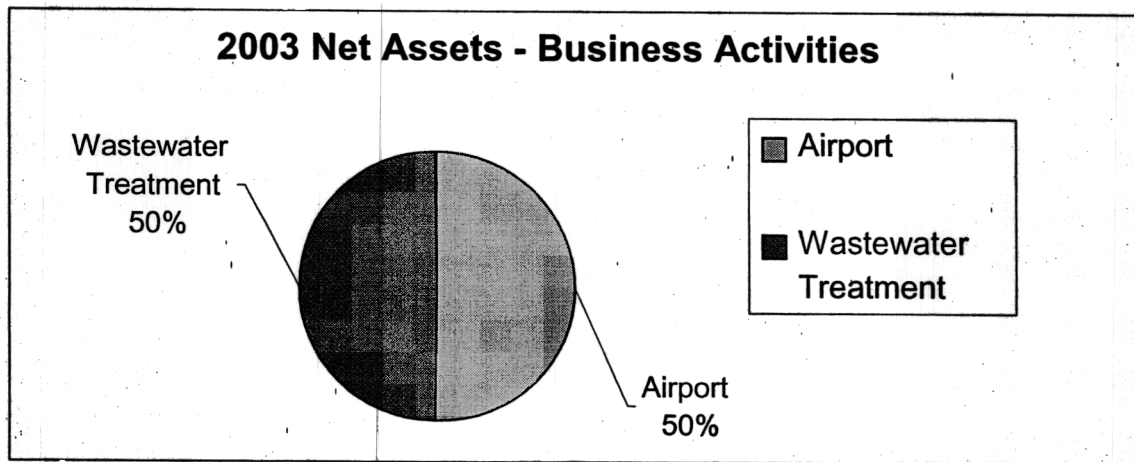
Business-type funds

The City's Enterprise Funds consist of the Sewer and Airport Operation Funds. A significant portion of current year expenses (prior to capitalization) for these funds was related to land acquisition and a hangar project at the Auburn Municipal Airport. The basic financial statements for these funds are included in this report. Because the focus on business-type funds is a cost of service measurement (or capital maintenance), an analysis to report return on ending assets and return on ending net assets is as follows:

CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE, 30, 2003

Table 3
Analysis on Return on Net Assets
(in Thousands)

	Airport		Sewer	
	2002	2003	2002	2003
Totals Assets	\$ 7,227	\$10,775	\$13,530	\$14,172
Net Assets	6,912	9,208	8,363	9,226
Change in Net Assets	4,315	2,296	586	863
Return on Ending Total Assets	59.7%	21.3%	4.3%	6.1%
Return on Ending Net Assets	62.4%	24.9%	7.0%	9.3%



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2003, the City had \$26.3 million invested in a broad range of capital assets, including police, fire and public works equipment, buildings, roads, airport facilities, wastewater treatment facilities and sewer lines (See table 4, below).

CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE, 30, 2003

Table 4
Capital Assets at Year-end
(in Millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Totals</u>	
	2002	2003	2002	2003	2002	2003
Land	\$ 0.4	\$ 0.4	\$ 0.2	\$ 0.2	\$ 0.6	\$ 0.6
Improvements	5.2	6.5	17.3	17.5	22.5	24.0
Equipment	2.5	2.9	0.8	0.9	3.3	3.8
Construction	<u>0.0</u>	<u>0.5</u>	<u>0.3</u>	<u>3.4</u>	<u>0.3</u>	<u>3.9</u>
Totals	8.1	10.3	18.6	22.0	26.7	32.3
Depreciation	<u>(2.3)</u>	<u>(2.8)</u>	<u>(2.5)</u>	<u>(3.1)</u>	<u>(4.8)</u>	<u>(5.9)</u>
Net Capital Assets	\$ 5.8	\$ 7.5	\$ 16.1	\$ 18.9	\$ 21.9	\$ 26.4

This year's major additions included (in millions):

Improvements:

Road Overlays -- Skyridge Subdivision

Equipment:

Public Works Rolling Stock -- Street Sweeper & Backhoe

Construction-In-Progress:

Land Acquisition & Hangar Construction -- Auburn Municipal Airport \$2.9

Traffic Signal Improvements \$1.3

The City's FY 2003-04 budget anticipates a spending level of \$11.7 million for capital projects, as follows:

Airport Hangar Project	\$3.8
WWTP Ultraviolet Disinfection Project	1.4
Sewer Collection System Improvements	1.3
Road Overlay Project	0.8
Multimodal Transportation Facility	1.4
Park Preserve Project	1.4
Traffic Signal & Sidewalk Improvements	<u>1.6</u>
	<u>\$ 11.7</u>

The City has no plans to issue additional debt to finance these projects. It is anticipated that 95% of the funding for the Airport projects will be reimbursed by Federal (90%) and State (5%) grants, and the remaining costs will be funded out of land and hangar lease revenues generated by the Airport Enterprise Fund. The improvements for the Wastewater Treatment Plant and the Sewage Collection System will be funded out of current period service fees and reserves. The multimodal transportation facility, sidewalk and traffic sign improvements will be funded out of current period revenues (taxes and grants) generated by the City's Transportation fund. State grants are the primary funding source for the park preserve project, which includes a contribution from City reserves in the amount of \$300,000. More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE, 30, 2003

Debt

At year-end, the City had \$9.4 million in bonds and notes outstanding, as compared to a total of \$8.9 million last year, an increase of 6% (\$0.5 million) – as shown in Table 5, below:

Table 5
Outstanding Debt at Year-end
(in Millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Totals</u>	
	2002	2003	2002	2003	2002	2003
General obligation						
Bonds	\$ 0.8	\$ 0.7	\$ 0.0	\$ 0.0	\$ 0.8	\$0.7
Certificates of						
Participation	2.5	2.4	0.0	0.0	2.5	2.4
Notes Payable	0.3	0.3	5.3	6.0	5.6	6.3
Totals	<u>\$ 3.6</u>	<u>\$ 3.4</u>	<u>\$ 5.3</u>	<u>\$ 6.0</u>	<u>\$ 8.9</u>	<u>\$9.4</u>

As an offset to scheduled reductions in debt principle the City made for its governmental activities, additional debt was secured through a 15 year loan from the State Department of Aeronautics for funding of new hangar facilities located at the Auburn Municipal Airport. A prepayment (for the entire outstanding balance) of the Certificates of Participation was completed by the City on September 1, 2003. This prepayment will result in substantial savings in future interest expense paid by the City, and was financed using debt service reserves previously set-aside for this purpose.

The City's general obligation bond rating is A from Moody's Investment Services, and the Certificates of Participation were rated as Baa(1). An explanation of that rating may be obtained from them at: Moody's Investors Service, 99 Church Street, New York, New York 10007, (212) 553-0300. There is no assurance that such rating will continue for any given period of time, or that it will not be revised downward or withdrawn if circumstances so warrant.

The City is obligated to other long-term debt, including: compensated absences due employees for accrued vacation and sick leave pay, capital leases for equipment and Post Closure expenses related to the City's closed landfill site, as described in Notes 5 and 12 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

With the exception of the fiscal year ending June 30, 2002, the City's General Fund has sustained substantial gains in sales tax revenues generated over the past nine fiscal years. Our overall assessment is that Sales Tax revenue collections have (and will continue to) improve in future fiscal periods. Similarly, robust residential housing development has resulted in double-digit growth in property tax revenues during the past two fiscal years. Indications are that this growth in property tax assessed valuation will continue into the foreseeable future. Together these two tax revenues account for 61% of the operating revenues available to the City's General Fund. As part of their strategy to balance the State Budget, the Legislature has proposed a "tax swap" plan for the fiscal year (2004-05) beginning July 1, 2004. As adopted, the State Budget for FY 2003-04 sets up a fiscal process for the transfer of sales taxes from local municipalities (like the City) to the State of California, in exchange for equal amounts of property tax revenues that would otherwise have been used to fund local school districts (Education Revenue Augmentation Funding). This plan has been labeled the "Triple Flip." Notwithstanding the "revenue neutrality"

CITY OF AUBURN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE, 30, 2003

design of this tax exchange plan, the City will be exchanging a monthly (sales tax) revenue collection system for semi-annual (property tax) revenue payments. This change in funding sources will have an adverse impact on the City's "cash flows" and may result in a reduction in interest earnings for the City's governmental activities. The purpose of the proposed tax exchange is tied into the State's plan to issue "deficit funding" bonds next Spring in the amount of \$10 billion, to balance the State's budget for fiscal year 2002-03. The constitutional validity of this deficit financial plan has been challenged, and will be litigated this coming Spring (2004).

Accordingly, there are concerns that sufficient revenues may not become available to finance planned expenditure appropriations within the City's General Fund, during the next fiscal year. This concern arises primarily as a result of the State of California's continuing weakening revenue position. There is a forecast of a State budget deficit in excess of \$8 billion for the fiscal year beginning July 1, 2004, exclusive of the \$10 billion deficit funding identified above and an additional \$2 billion in retirement contribution bonds, which have been blocked by a similar court action. There are strong indications that three primary sources of State aid to the City continue to be at risk. A substantial portion (67% or approximately \$457,000) of the Motor Vehicle In-lieu payments, as well as all (\$100,971) of the Jail Booking Fee Reimbursement and all (in excess of \$100,000) of the Community Oriented Policing (COP) grants could be suspended by the State in response to funding of its own programs and constitutional guarantees for funding of public education programs. Any reductions in these revenues would necessitate significant reductions in the City's expenditures and/or a substantial draw down against the City's cash reserves. Nevertheless, the City's overall financial condition remains sound, and adequate cash reserves are maintained to meet the long term debt service and equipment replacement needs.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances, and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Finance, City of Auburn, 1225 Lincoln Way, Auburn, California 95603.

BASIC FINANCIAL STATEMENTS

CITY OF AUBURN
STATEMENT OF NET ASSETS
JUNE 30, 2003

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments	\$ 8,671,768	\$ 4,512,151	\$ 13,183,919
Restricted cash	1,734,703	37,350	1,772,053
Accounts receivable	1,124,148	573,479	1,161,498
Interest receivable	10,623	4,564	15,187
Taxes receivable	36,403	-	36,403
Due from other funds	-	150,087	150,087
Deferred interest	-	789,416	789,416
Prepaid self-insurance equity	640,674	-	640,674
Capital assets			
Land, improvements and construction in progress	784,426	15,063,679	15,848,105
Other capital assets, net of depreciation	<u>6,685,689</u>	<u>3,816,682</u>	<u>10,502,371</u>
Total capital assets	7,470,115	18,880,361	26,350,476
Total Assets	<u>\$ 19,688,434</u>	<u>\$ 24,947,408</u>	<u>\$ 44,635,842</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 333,074	\$ 424,604	\$ 757,678
Accrued wages and benefits	-	-	-
Due to other funds	150,087	38,350	188,437
Deposits	157,175	-	157,175
Deferred revenue	1,190,564	-	1,190,564
Current portion of long-term debt	227,523	290,885	518,408
Compensated absences	786,254	10,790	797,044
Bonds, notes and loans payable (net of current portion)	3,198,368	5,747,940	8,946,308
Landfill closure costs	<u>2,076,225</u>	<u>-</u>	<u>2,076,225</u>
Total Liabilities	<u>8,119,270</u>	<u>6,512,569</u>	<u>14,631,839</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	4,044,224	12,841,536	16,885,760
Restricted for:			
Debt service	1,881,236	-	1,881,236
Community development projects	618,043	-	618,043
Unrestricted	<u>5,025,661</u>	<u>5,593,303</u>	<u>10,618,964</u>
Total Net Assets	<u>11,569,164</u>	<u>18,434,839</u>	<u>30,004,003</u>
Total Liabilities and Net Assets	<u>\$ 19,688,434</u>	<u>\$ 24,947,408</u>	<u>\$ 44,635,842</u>

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		<u>Total</u>
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	
PRIMARY GOVERNMENT							
Governmental activities:							
General government	\$ 1,429,251	\$ 524,552	\$ 740,739	\$ -	\$ (163,960)	\$ -	\$ (163,960)
Public safety	4,151,189	571,971	-	-	(3,579,218)	-	(3,579,218)
Health services	184,931	-	9,000	-	(175,931)	-	(175,931)
Environment and development	1,465,649	385,506	38,581	757,181	(284,381)	-	(284,381)
Transportation services	1,852,245	106,716	1,331,017	612,826	198,314	-	198,314
Interest on long-term debt	375,021	-	-	-	(375,021)	-	(375,021)
Total government activities	<u>9,458,286</u>	<u>1,588,745</u>	<u>2,119,337</u>	<u>1,370,007</u>	<u>(4,380,197)</u>	<u>-</u>	<u>(4,380,197)</u>
Business-type activities:							
Auburn Municipal Airport	528,518	69,896	-	2,325,301	-	1,866,679	1,866,679
Wastewater Treatment	<u>2,375,566</u>	<u>2,982,607</u>	-	-	-	<u>607,041</u>	<u>607,041</u>
Total business-type activities	<u>2,904,084</u>	<u>3,052,503</u>	-	<u>2,325,301</u>	-	<u>2,473,720</u>	<u>2,473,720</u>
Total primary government	<u>\$ 12,362,370</u>	<u>\$ 4,641,248</u>	<u>\$ 2,119,337</u>	<u>\$ 3,695,308</u>	<u>\$ (4,380,197)</u>	<u>\$ 2,473,720</u>	<u>\$ (1,906,477)</u>
General revenues:							
Taxes:							
Sales taxes					\$ 2,797,849	\$ -	\$ 2,797,849
Property taxes					2,224,532	71,050	2,295,582
Other taxes					222,215	-	222,215
Franchise fees					617,846	-	617,846
Licenses, permits and fees					196,465	-	196,465
Rents					317,227	321,576	638,803
Interest					556,114	203,188	759,302
Transfers					27,337	(27,337)	-
Capital contributions					-	117,610	117,610
Total general revenues and transfers					<u>6,959,585</u>	<u>686,087</u>	<u>7,645,672</u>
Change in net assets					<u>2,579,388</u>	<u>3,159,807</u>	<u>5,739,195</u>
Net assets - beginning					<u>8,989,776</u>	<u>15,275,032</u>	<u>24,264,808</u>
Net assets - ending					<u>\$ 11,569,164</u>	<u>\$ 18,434,839</u>	<u>\$ 30,004,003</u>

See accompanying notes to the basic financial statements.

**CITY OF AUBURN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	<u>General Fund</u>	<u>Transportation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Government Funds</u>
<u>ASSETS</u>				
Cash and investments	\$ 4,124,967	\$ 852,130	\$ 3,694,671	\$ 8,671,768
Restricted cash	43,200	-	1,691,503	1,734,703
Accounts receivable	458,264	36,125	629,759	1,124,148
Interest receivable	4,506	957	5,160	10,623
Taxes receivable	-	-	36,403	36,403
Prepaid self insurance equity	640,674	-	-	640,674
Total Assets	<u>\$ 5,271,611</u>	<u>\$ 889,212</u>	<u>\$ 6,057,496</u>	<u>\$ 12,218,319</u>

LIABILITIES AND FUND BALANCES

LIABILITIES:				
Accounts payable	\$ 145,115	\$ 6,205	\$ 181,754	\$ 333,074
Accrued wages and benefits	-	-	-	-
Deposits	157,175	-	-	157,175
Due to other funds	150,087	-	-	150,087
Deferred revenue	-	883,007	307,557	1,190,564
Total liabilities	<u>452,377</u>	<u>889,212</u>	<u>489,311</u>	<u>1,830,900</u>

FUND BALANCES

Unreserved: Designated for:				
Insurance programs	640,674		-	640,674
Debt service	-		1,881,236	1,881,236
Unreserved: Undesignated	4,178,560		-	4,178,560
Unreserved: Reported in nonmajor:				
Special revenue funds			2,718,822	2,718,822
Capital projects funds			968,127	968,127
Total fund balances	<u>4,819,234</u>	<u>889,212</u>	<u>5,568,185</u>	<u>10,387,419</u>
Total liabilities and fund balances	<u>\$ 5,271,611</u>	<u>\$ 889,212</u>	<u>\$ 6,057,496</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$2,768,773	7,470,115
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(786,254)
Bonds payable	(750,000)
Certificates of participation	(2,390,000)
Landfill closure costs	(2,076,225)
Other long term liabilities	(285,891)
Net assets of governmental activities	<u>\$ 11,569,164</u>

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	<u>General Fund</u>	<u>Transportation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Government Funds</u>
<u>REVENUES</u>				
Taxes and assessments	\$ 4,707,424	\$ 818,357	\$ 724,849	\$ 6,250,630
Franchises	501,177	-	116,669	617,846
Licenses, permits and fees	427,241	-	51,869	479,110
Fines and forfeitures	112,573	-	-	112,573
Use of money and property	512,174	64,290	296,877	873,341
Intergovernmental	1,053,459	-	1,835,792	2,889,251
Charges for service	221,309	-	470,174	691,483
Other revenues	18,240	9,964	67,184	95,388
Total Revenues	<u>7,553,597</u>	<u>892,611</u>	<u>3,563,414</u>	<u>12,009,622</u>
<u>EXPENDITURES</u>				
Current operations:				
Safety services	3,803,121	-	183,787	3,986,908
Health services	-	-	69,200	69,200
Environment and development	637,288	-	795,814	1,433,102
Transportation	1,029,975	33,230	425,382	1,488,587
Administrative services	1,616,607	-	98,015	1,714,622
Debt service:				
Principal	-	10,550	170,000	180,550
Interest and other charges	-	3,070	205,021	208,091
Capital outlay	61,419	957,820	1,356,455	2,375,694
Total Expenditures	<u>7,148,410</u>	<u>1,004,671</u>	<u>3,303,674</u>	<u>11,456,754</u>
Excess (deficiency) of revenues over expenditures	<u>405,187</u>	<u>(112,060)</u>	<u>259,740</u>	<u>552,868</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Debt proceeds	-	-	-	-
Transfers in	114,356	-	273,230	387,586
Transfers out	(220,989)	-	(139,259)	(360,248)
Total other financing sources (uses)	<u>(106,633)</u>	<u>-</u>	<u>133,971</u>	<u>27,338</u>
Net change in fund balances	298,554	(112,060)	393,711	580,205
Fund balances, beginning	4,520,680	112,060	5,174,474	9,807,214
Fund balances - ending	<u>\$ 4,819,234</u>	<u>\$ -</u>	<u>\$ 5,568,185</u>	<u>\$ 10,387,419</u>

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds	580,205
Governmental funds report capital outlays as expenditures while governmental activities report depreciation as expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	2,154,923
Depreciation expense	(459,668)
Disposal of capital asset	(26,638)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Capital lease obligation principal payments	20,063
Bond principal payments	95,000
Certificates of participation principal payments	75,000
Due to Other Agencies debt payment for AUDA deferred tax increments	25,306
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued compensated absences	(38,974)
Accrued landfill closure costs	154,171
	<u>154,171</u>
Change in net assets of governmental activities	<u>\$ 2,579,388</u>

CITY OF AUBURN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003

	<u>Business-type Activities</u>		
	<u>Airport</u>	<u>Sewer</u>	<u>Totals</u>
<u>ASSETS</u>			
Current Assets			
Cash and investments	\$ 864,196	\$ 3,647,955	\$ 4,512,151
Accounts receivable	456,249	117,230	573,479
Interest receivable	957	3,607	4,564
Restricted cash	37,350	-	37,350
Due from other funds	150,087	-	150,087
Deferred interest	-	789,416	789,416
Total Current Assets	<u>1,508,839</u>	<u>4,558,208</u>	<u>6,067,047</u>
Fixed Assets, Net of Accumulated Depreciation	<u>9,266,165</u>	<u>9,614,196</u>	<u>18,880,361</u>
Total Fixed Assets	<u>9,266,165</u>	<u>9,614,196</u>	<u>18,880,361</u>
Total Assets	<u>10,775,004</u>	<u>14,172,404</u>	<u>24,947,408</u>
<u>LIABILITIES</u>			
Current Liabilities			
Accounts payable	347,070	77,534	424,604
Deposits	38,350	-	38,350
Compensated absences	5,475	5,315	10,790
Note payable - current portion	48,651	282,234	330,885
Total Current Liabilities	<u>439,546</u>	<u>365,083</u>	<u>804,629</u>
Long-Term Liabilities			
Note payable - long-term portion	1,127,349	4,580,591	5,707,940
Total Long-Term Liabilities	<u>1,127,349</u>	<u>4,580,591</u>	<u>5,707,940</u>
Total Liabilities	<u>1,566,895</u>	<u>4,945,674</u>	<u>6,512,569</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	8,090,165	4,751,371	12,841,536
Unrestricted	1,117,944	4,475,359	5,593,303
Total Net Assets	<u>\$ 9,208,109</u>	<u>\$ 9,226,730</u>	<u>\$ 18,434,839</u>

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Business-type Activities</u>		
	<u>Airport</u>	<u>Sewer</u>	<u>Totals</u>
<u>OPERATING REVENUES</u>			
Licenses, permits, and fees	\$ -	\$ 502,917	\$ 502,917
Charges for services	65,761	2,479,629	2,545,390
Other revenues	<u>4,135</u>	<u>61</u>	<u>4,196</u>
Total Operating Revenues	<u>69,896</u>	<u>2,982,607</u>	<u>3,052,503</u>
<u>OPERATING EXPENSES</u>			
Salaries and benefits	77,881	80,561	158,442
Maintenance and operations	124,724	1,873,301	1,998,025
Interest	8,795	47,040	55,835
Miscellaneous	29,517	-	29,517
Depreciation	<u>287,601</u>	<u>374,664</u>	<u>662,265</u>
Total Operating Expenses	<u>528,518</u>	<u>2,375,566</u>	<u>2,904,084</u>
Operating Income (Loss)	<u>(458,622)</u>	<u>607,041</u>	<u>148,419</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Taxes	71,050	-	71,050
Intergovernmental	2,325,301	-	2,325,301
Rental income	321,576	-	321,576
Interest income	<u>38,984</u>	<u>164,204</u>	<u>203,188</u>
Total Non-Operating Revenues (Expenses)	<u>2,756,911</u>	<u>164,204</u>	<u>2,921,115</u>
Net Income (Loss) Before Operating Transfers	<u>2,298,289</u>	<u>771,245</u>	<u>3,069,534</u>
CAPITAL CONTRIBUTIONS	-	117,610	-
TRANSFERS IN	11,673	-	11,673
TRANSFERS OUT	<u>(13,874)</u>	<u>(25,136)</u>	<u>(39,010)</u>
Change in net assets	<u>2,296,088</u>	<u>863,719</u>	<u>3,159,807</u>
Total Net Assets - Beginning of Year	6,912,021	8,363,011	15,275,032
Total Net Assets - End of Year	<u>\$ 9,208,109</u>	<u>\$ 9,226,730</u>	<u>\$ 18,434,839</u>

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Business-type Activities</u>		
	<u>Airport</u>	<u>Sewer</u>	<u>Totals</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Cash received from customers	\$ 67,548	\$ 2,995,633	\$ 3,063,181
Cash paid to suppliers	(256,549)	(79,121)	(335,670)
Cash paid to employees	(77,220)	(1,813,662)	(1,890,882)
Net Cash Provided (Used) by Operating Activities	<u>(266,221)</u>	<u>1,102,850</u>	<u>836,629</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Taxes received	37,910	-	37,910
Cash received from other funds	44,477	-	44,477
Transfers in (out)	(2,201)	(25,136)	(27,337)
Net Cash Provided (Used) for Noncapital Financing Activities	<u>80,186</u>	<u>(25,136)</u>	<u>55,050</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Operating grants	1,937,972	-	1,937,972
Principal paid on debt	(8,000)	(282,234)	(290,234)
Proceeds from debt	1,000,000	-	1,000,000
Interest payments on debt	(8,795)	-	(8,795)
Acquisition of fixed assets	(2,594,557)	(353,853)	(2,948,410)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>326,620</u>	<u>(636,087)</u>	<u>(309,467)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Rental income	321,576	-	321,576
Interest on investments	23,871	176,521	200,392
Net Cash Provided (Used) by Investing Activities	<u>345,447</u>	<u>176,521</u>	<u>521,968</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>486,032</u>	<u>618,148</u>	<u>1,104,180</u>
Cash and Cash Equivalents at Beginning of Year	<u>378,164</u>	<u>3,029,807</u>	<u>3,407,971</u>
Cash and Cash equivalent at End of Year	<u>\$ 864,196</u>	<u>\$ 3,647,955</u>	<u>\$ 4,512,151</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>			
Operating Income (Loss)	\$ (458,622)	\$ 607,041	\$ 148,419
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	287,602	374,664	662,266
Interest	8,795	-	8,795
Changes in assets and liabilities:			
(Increase) Decrease in accounts receivable	(2,348)	13,026	10,678
Increase (Decrease) in accounts payable	(102,308)	59,639	(42,669)
Increase (Decrease) in deferred interest	-	47,040	47,040
Increase (Decrease) in compensated absences	660	1,440	2,100
Net Cash Provided (Used) by Operating Activities	\$ (266,221)	\$ 1,102,850	\$ 836,629

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Private- purpose Trust</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Cash and investments	\$ 5,068	\$ 271,437
Accounts receivable	-	2,186
Interest receivable	5	248
Due from other funds	-	-
Total assets	<u>5,073</u>	<u>\$ 273,871</u>
<u>LIABILITIES</u>		
Agency obligations	-	\$ 273,871
Due to other funds	-	-
Total liabilities	<u>-</u>	<u>\$ 273,871</u>
<u>NET ASSETS</u>		
Held in trust	<u>\$ 5,073</u>	

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Private- purpose Trust</u>
<u>ADDITIONS</u>	
Interest	\$ 262
Dividends	-
Total investment earnings	262
Less investment expense	-
Net investment earnings	262
Total additions	<u>262</u>
<u>DEDUCTIONS</u>	
Benefits	
Administrative expenses	
Total deductions	
Change in net assets	262
Net assets, beginning	<u>4,811</u>
Net assets, ending	<u>\$ 5,073</u>

See accompanying notes to the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

The notes provided in the Financial Section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a Summary of Significant Accounting Policies for the City and other necessary disclosure of pertinent matters relating to the financial position of the City. The notes provide significant insight into the financial statements and are conjunctive to understanding the rational for presentation of the financial statements and information contained in this document.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City operates under a Council-Manager form of government and provides the following services: Public safety (police and fire), highways and streets, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City of Auburn have been prepared in conformity with general accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

The accounting methods and procedures adopted by the City conform to generally accepted accounting principles as applied to government entities. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable under the criteria set by Governmental Accounting Standards Board (GASB) Statement No. 14.

Reporting for component units on the City's financial statements can be blended or discretely presented. Blended component units, although legally separate entities, are, in substance, part of the government's operation. Blended component units are an extension of the City and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City. Each component unit has a June 30th year end.

Blended Component Unit - the following entity is governed by the City's Council. The component unit's governing body is substantially the same as the primary government, hence, this unit is presented by blending it with the primary government.

Auburn Urban Development Authority

The Auburn Urban Development Authority is a public instrumentality, organized and existing pursuant to the laws of the State of California for the purpose of eliminating blight through the process of redevelopment. All powers of the Authority are vested with its five members, the Auburn City Council. The Authority exercises governmental functions in carrying out projects and has sufficiently broad authorities to acquire, develop, administer and sell or lease property, and the right to issue bonds or incur other types of indebtedness and expend proceeds.

Although the City and Development Authority are legally separate entities, the City exercises oversight responsibility over the Development Authority. The following criteria were used in determining that the City exercises oversight:

The City Council also acts as the Board of Directors of the Development Authority.

2. The City and the Development Authority are financial interdependent.

Complete audited financial statements of the Auburn Urban Development Authority can be obtained from the City of Auburn, 1225 Lincoln Way, Auburn, CA 95603

Discretely Presented Component Units - There are no component units of the City which meet the criteria for discrete presentation.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

The City's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, recreation, and general and administrative services are classified as governmental activities. The City's sewer and airport services are classified as business-type activities.

Government-wide Financial Statements:

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Program revenues must be directly associated with the function (police, public works, etc.) or a business type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the City other than debt service payments made by enterprise funds.

Capital Project Fund - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities other than those financed by enterprise funds.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Funds (not included in government-wide statements)

Agency Fund - Agency Funds are clearing type funds for the collection of taxes or deposits held in trust, on behalf of individuals, private organizations and other governments. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-purpose Trust Fund - Private-purpose Trust Funds report trust arrangements under which the principal or interest benefit specific individuals, private organizations or other governments. The City reports the Southwest Specific Plan Fund as a Private-purpose Trust Fund.

Major Funds

<u>Fund</u>	<u>Brief Description</u>
Transportation	Supports the City's network of street projects that serve vehicular traffic. These projects include streets, bridges, interchanges, intersections, street lights sound walls and many other street related projects.
Airport	General aviation airport serving recreation, commuter, limited air cargo and public safety needs. Revenues generated off the easterly 40 acres of the City's Industrial Park (Phase I) are included in the Airport Enterprise Fund.
Sewer	Builds, operates and maintains Auburn's sewer treatment plant and collection system.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All Governmental Funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. All Proprietary Funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City defines available to be within 60 days of year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental fund types. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

D. Cash and Investments

The City maintains a cash and investments pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash and investments.

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less and pooled cash when purchased to be cash equivalents.

E. Inventory

The City does not record an inventory of expendable supplies. The cost is recorded as an expenditure at the time individual inventory items are purchased. Any amounts on hand at June 30, 2003 are not material.

F. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts. Any doubtful accounts at June 30, 2003, were not considered material. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines and other fees. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Any doubtful accounts at June 30, 2003, were not considered material.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Fixed Assets

The accounting treatment over property, plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statement, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Improvements	40 years
Office and Shop Equipment	5 years
Vehicles - heavy	10 years
Vehicles - light	7 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

H. Accumulated Compensated Absences

It is the City's policy to permit employees to accrue earned but unused vacation and sick leave, which will be paid to employees upon separation from City services. Employees receive cash compensation for accrued and unused vacation and for accrued and unused sick leave in excess of forty days. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In governmental funds, the cost of vacation and sick leave is recognized when payments are made to employees, while proprietary funds report the liability as it is incurred.

I. Interfund Transactions

Following is a description of the four basic types of interfund transactions made during the year and the related accounting policies:

1. Quasi-external charges for current services - transactions for services rendered or facilities provided. These transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund.
2. Reimbursements (expenditure transfers) - transactions to reimburse a fund for specific expenditures incurred for the benefit of another fund. These transactions are recorded as expenditures in the disbursing fund and a reduction of expenditures in the receiving fund.
3. Residual equity transfers - transactions recording equity contributions and distributions between funds. The receiving fund records such transactions as an addition to fund balance, if it is a Governmental Fund, or a capital contribution, if it is a Proprietary Fund. The disbursing fund records the transfer as a reduction of fund balance, retained earnings, or contributed capital.
4. Operating Transfers - all other interfund transactions which allocate resources from one fund to another fund. These transactions are recorded as operating transfers in and out.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

The City records reserves to indicate that a portion of the fund equity is legally segregated for a specific future use. Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or debt service. Such plans or intent are subject to change and may never be legally authorized or result in expenditures.

K. Property Tax Revenues

Property taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on July 1st and are payable in two installments on December 10th and April 10th. All general property taxes are allocated by the County Auditor-Controller's office to the various taxing entities in installments during the year.

The County of Placer has elected into the Teeter Plan for property tax distributions. Therefore, the City receives 100 percent of the secured property tax levies to which it is entitled, whether or not collected. Unsecured delinquent taxes are considered fully collectible and no allowance for uncollectible taxes is provided.

Property taxes are accrued as receivables in the period when they are levied. Property tax revenues are recognized when they become available. "Available" means due, or past due, and receivable within the current period and collected or expected to be collected soon enough thereafter to be used to pay liabilities for the current period. This period was 60 days from the end of the fiscal year.

L. Grant Revenues

Certain grant revenues are recognized when specific related expenditures have been incurred. In other grant programs, monies are virtually unrestricted as to purpose of expenditure and are only revocable for failure to comply with prescribed compliance requirements. These revenues are recognized at the time of receipt, or earlier if susceptible to accrual criteria is met. Cash received prior to incurrence of the related expenditure is recorded as deferred revenue.

Deferred revenues of \$883,007 are recorded in the Transportation capital project fund and \$307,557 in the Transit special revenue fund.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character:
 Current (further classified by function)
 Debt Service
 Capital Outlay

Proprietary Fund - By Operating and Non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2003, the City has excess expenditures over appropriations as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures & Transfers Out</u>	<u>Excess</u>
Debt Service			
Certificates of Participation	\$ <u>212,504</u>	\$ <u>219,826</u>	\$ <u>7,322</u>
Special Revenue			
Multimodal Railstation	\$ <u>500,000</u>	\$ <u>848,352</u>	\$ <u>348,352</u>

Excess expenditures over appropriations for Certificates of Participation reflects under estimating interest expenditures due to netting of debt service interest with amounts earned on debt service reserve deposit held by fiduciary.

Excess expenditures over appropriations for the Multimodal Railstation reflects the under estimation of first year expenditures for the multi-year construction project.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 3: CASH AND INVESTMENTS

Cash and investments including cash on hand, at June 30, 2003, consisted of the following:

General Fund	\$ 4,168,167
Special Revenue Funds	2,546,504
Debt Service Funds	1,871,222
Capital Projects	1,820,577
Enterprise Funds	4,549,501
Trust and Agency Funds	<u>276,505</u>
 Total Cash and Investments	 <u>\$ 15,232,476</u>

Cash and investments were comprised of the following at June 30, 2003.

Cash on hand	\$ 240
Deposits	1,268,608
Investments	<u>13,963,628</u>
 Total Cash and Investments	 <u>\$ 15,232,476</u>

The City follows the practice of pooling cash and investments of all funds except for restricted funds required to be held by outside fiscal agents.

Interest income from pooled cash and investments is allocated on a quarterly basis based on the month end cash balance in each fund.

Deposits

The California Government Code requires California banks and savings and loan association to collateralize a City's deposits by pledging government securities. The market value of pledged securities must equal at least 110 percent of a City's deposits. California law also allows financial institutions to collateralize City deposits by pledging first trust deed mortgage notes having a value of 150 percent of a City's total deposits. The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by Federal Deposit Insurance.

At year end the carrying amount of the City's cash deposits (including amounts in checking and savings accounts) was \$1,423,840. All of the cash in banks and savings and loans was insured by federal depository insurance or collateralized with securities held by the City by its agent in the City's name.

At June 30, 2003, restricted cash was held as follows:

General Fund	
Security Deposit	\$ 80,550
 Debt Service	
Certificates of Participation Reserve	258,323
 Special Revenue	
Post Closure Reserve	<u>1,433,180</u>
 Total Restricted Cash	 <u>\$ 1,772,053</u>

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Investments

In accordance with Government Code Section 53601, the City may invest in the following types of investments:

Bonds issued by the State of California and/or any local agency within the State of California
 Securities of the U.S. Government, or its agencies
 Certificates of Deposit (or Time Deposit) placed with commercial banks and/or savings and loan companies
 Negotiable Certificates of Deposit
 Bankers Acceptances
 Commercial Acceptances
 Local Agency Investment Fund (State Pool) Demand Deposits
 Repurchase Agreements (Repos)
 Passbook Savings Account Demand Deposits
 Reverse Repurchase Agreements
 Medium Term Corporate Notes
 Mutual Funds Holding the above allowable investments

Derivative Financial Products

Derivative financial products are contracts whose value depends on, or derives from, the value of an underlying assets, reference rate, or index. Rates are directly or inversely tied to various indexes. Therefore, the interest rate realized on these investments may lag or be inverse to market conditions and may cause a subsequent decline in market value. At June 30, 2003, the City's fair value investment in the Local Agency Investment Fund (LAIF) was \$601,701. The total fair value amount invested by all public agencies in LAIF was \$55,587,336,494. Of this amount, 100 percent was invested in non-derivative financial products. The regulatory oversight to the LAIF is the Local Agency Investment Board.

Credit Risk, Carrying Amount and Fair Value of Investments

Investments that are represented by specific identifiable securities are classified as to credit risk category. Category 1 includes investments that are insured or registered or for which collateral is held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or its trust department in the City's name. Category 3 includes uninsured and unregistered investments for which securities are held by the broker or dealer or by its trust department or agent but not in the City's name.

The City's investments in cash with fiscal agent and the State Treasurer investment pool, known as Local Agency Investment Fund (LAIF) are not categorized since these funds and pools contain a diversified portfolio of securities within each category defined above.

	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Carrying value</u>	<u>Fair Value</u>
Categorized					
Certificates of deposit	\$ 901,233	\$ -	\$ -	\$ 901,233	\$ 901,233
Corporate bonds and equities	5,191,632	-	-	5,191,632	5,191,632
Government securities	<u>5,590,665</u>	<u>-</u>	<u>-</u>	<u>5,590,665</u>	<u>5,590,665</u>
Total Categorized Investments	\$ <u>11,683,530</u>	\$ <u>-</u>	\$ <u>-</u>	11,683,530	11,683,530
Not Categorized					
Investment in Local Agency Investment Fund				599,993	601,701
Placer County Treasurer's Pooled Funds				<u>1,680,105</u>	<u>1,680,105</u>
Total Investments				\$ <u>13,963,628</u>	\$ <u>13,965,336</u>

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

The methods and assumptions that the City used to estimate the fair value of its investments is the commonly found values as presented in publications such as the Wall Street Journal for the period ending June 30, 2003. The third party holding the investments for safekeeping also presented a fair value of the investments held in trust that were consistent with values found from the broker-dealer community. In regards to funds invested with the State of California Local Agency Investment Fund, the value of each participating dollar equals the fair value divided by the amortized cost. Fair value includes accrued interest.

Reverse Repurchase Agreements

State statutes permit the City to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. However, at no time during the fiscal year did the City borrow funds through the use of reverse repurchase agreements.

NOTE 4: FIXED ASSETS

	<u>Balance at July 1, 2002</u>	<u>Additions</u>	<u>Retirements and Adjustments</u>	<u>Balance at June 30, 2003</u>
Governmental activities:				
Land	\$ 350,000	\$ -	\$ -	\$ 350,000
Buildings	5,213,251	16,954	-	5,230,205
Machinery and equipment	2,547,351	438,804	(26,637)	2,959,518
Infrastructure	-	1,264,739	-	1,264,739
Construction-in-progress	-	434,426	-	434,426
Totals at historical cost	<u>8,110,602</u>	<u>2,154,923</u>	<u>(26,637)</u>	<u>10,238,888</u>
Less accumulated depreciation				
Buildings	(1,183,039)	(110,129)	-	(1,293,168)
Machinery and equipment	(1,126,066)	(357,816)	8,277	(1,475,605)
Infrastructure	-	-	-	-
Total accumulated depreciation	<u>(2,309,105)</u>	<u>(467,945)</u>	<u>8,277</u>	<u>(2,768,773)</u>
Governmental activities capital assets, net	<u>5,801,497</u>	<u>1,686,978</u>	<u>(18,360)</u>	<u>7,470,115</u>
Business-type activities:				
Land	170,531	-		170,531
Improvements to land	17,364,974	117,610		17,482,584
Machinery and equipment	802,600	106,221		908,821
Construction-in-progress	271,046	3,166,139		3,437,185
Totals at historical cost	<u>18,609,151</u>	<u>3,389,970</u>		<u>21,999,121</u>
Less accumulated depreciation				
Improvements to land	(2,026,356)	(563,080)	-	(2,589,436)
Machinery and equipment	(430,139)	(99,185)	-	(529,324)
Total accumulated depreciation	<u>(2,456,495)</u>	<u>(662,265)</u>	<u>-</u>	<u>(3,118,760)</u>
Business-type capital assets, net	<u>\$ 16,152,656</u>	<u>\$ 2,727,705</u>	<u>\$ -</u>	<u>\$ 18,880,361</u>

Depreciation was charged to functions as follows:

Governmental Activities:	
General government	\$ 64,019
Public safety	320,623
Transportation services	83,303
Total governmental activities depreciation expense	<u>\$ 467,945</u>
Business-type Activities	
Auburn Municipal Airport	\$ 287,601
Sewer	374,664
Total business-type activities depreciation expense	<u>\$ 662,265</u>

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 5: LONG-TERM DEBT

Governmental Activities

The following is a summary of long-term debt transactions related to governmental activities of the City for the year ended June 30, 2003:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bonds and notes payable:				
General obligation bonds	\$ 845,000	\$ -	\$ (95,000)	\$ 750,000
Certificates of participation	2,465,000	-	(75,000)	2,390,000
Capital leases	33,855	-	(9,513)	24,342
Loans payable	112,060	-	(10,550)	101,510
Due to other agencies	185,345	-	(25,306)	160,039
Total bonds and notes payable	<u>3,641,260</u>		<u>(215,369)</u>	<u>3,425,891</u>
Other liabilities:				
Compensated absences	747,280	38,974	-	786,254
Landfill closure costs	<u>2,230,396</u>	<u>-</u>	<u>(154,171)</u>	<u>2,076,225</u>
Total other liabilities	<u>2,977,676</u>	<u>38,974</u>	<u>(154,171)</u>	<u>2,862,479</u>
Governmental activities long-term liabilities	\$ <u>6,618,936</u>	\$ <u>38,974</u>	\$ <u>(369,540)</u>	\$ <u>6,288,370</u>

A description of the long-term liabilities related to governmental activities at June 30, 2003 follows:

General Obligation Bonds:

The Civic Center general obligation bonds of \$2,330,000 at 6.5 to 9.25 percent interest mature annually through August 1, 2009. Bond proceeds were used to finance the acquisition and construction of improvements to the City of Auburn Civic Center, including a Police Station, City Administrative offices, and related facilities.

The annual requirements to amortize the general obligation bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 100,000	\$ 47,985	\$ 147,985
2005	110,000	36,293	146,293
2006	120,000	27,810	147,810
2007	130,000	27,370	157,370
2008	140,000	26,560	166,560
2009	<u>150,000</u>	<u>16,500</u>	<u>166,500</u>
Total	\$ <u>750,000</u>	\$ <u>182,518</u>	\$ <u>932,518</u>

Certificates of Participation:

In August 1993, the City of Auburn issued Refunding Certificates of Participation (Civic Center Project) Series 1994 A in the amount of \$2,945,000.

The proceeds of this issuance, along with \$250,500 of an existing reserve fund were used to defease Civic Center Project Series 1990 A Certificates of Participation. The refunding certificates of participation carry interest at 3.50 to 5.75 percent and are payable in semi-annual payments for eleven years with \$2,230,000 term certificates plus accrued interest due September 1, 2020. In September 2003, the City retired the balance of the Certificates of Participation. The payoff balance including interest and call premium totalled \$2,271,022.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 5: LONG-TERM DEBT (CONTINUED)

Capital Leases:

Xerox Corporation, Inc. lease - Capital lease dated May 10, 2002 for \$22,181 for a digital copier. Payments of \$447 including interest for 60 months. The lease includes a \$1 bargain purchase option at the end of the lease term. The balance at June 30, 2003 was \$18,186.

Copelco Capital, Inc. lease - Capital lease dated July 1, 1999 for \$27,400 for a Toshiba Voice Mail. Payments of \$530 including interest for 60 months. The balance at June 30, 2003 was \$6,155.

The total cost of assets under capital leases at June 30, 2003 was \$49,581. The minimum capital lease payments under capital lease together with the present value as of June 30, 2003 is as follows:

Year Ending June 30,	Total
2004	\$ 11,571
2005	5,363
2006	5,363
2007	<u>4,916</u>
Total minimum lease payments	27,213
Less amount representing interest	<u>(2,871)</u>
Present value of minimum lease payments	<u>\$ 24,342</u>

Loans Payable

In April 2002, the City completed the LED Signal Conversion project for which it received a loan in the amount of \$112,060 from the California Energy Commission. The loan bears an interest rate of 3% and requires 19 semiannual payments beginning on December 22, 2002.

A schedule of principal payments is as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 10,646	\$ 2,974	\$ 13,620
2005	10,976	2,645	13,621
2006	11,308	2,313	13,621
2007	11,649	1,971	13,620
2008	11,997	1,623	13,620
2009 - 2011	<u>44,934</u>	<u>2,737</u>	<u>47,671</u>
Total	<u>\$ 101,510</u>	<u>\$ 14,263</u>	<u>\$ 115,773</u>

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 5: LONG-TERM DEBT (CONTINUED)

Due to Other Agencies:

The Auburn Urban Development Authority has agreed to pass through to Placer County Library, Park, and Cemetery Districts seven percent of the amount of tax increments it receives from property within the redevelopment area. The Agencies have agreed to defer this amount for ten years at which time, beginning in 1998-1999, the Authority is to commence making ten equal annual payments. The balance at June 30, 2003 was \$ 160,039 .

Year Ending June 30,	Principal	Interest	Total
2004	\$ 25,306	\$ -	\$ 25,306
2005	25,306	-	25,306
2006	25,306	-	25,306
2007	25,306	-	25,306
2008	25,306	-	25,306
2009 - 2013	11,170	-	11,170
2014 - 2018	11,170	-	11,170
2019 - 2023	11,169	-	11,169
Total	\$ 160,039	\$ -	\$ 160,039

Compensated absences:

The liability for compensated absences is the accrued liability for earned but unused vacation and sick leave which will be paid to employees upon separation from the City's service. There is not a fixed payment schedule for compensated absences. At June 30, 2003, the balance was \$ 786,254 .

Landfill Closure Costs:

As of June 30, 2003, the estimated liability for post closure cost was \$2,076,225. See Note 15 for more information on landfill closure costs.

Business-type Activities

The following is a summary of long-term debt transactions related to business-type activities of the City for the year ended June 30, 2003

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bonds and notes payable:				
Airport (East Hanger Project) note payable	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
Airport note payable	184,000	-	(8,000)	176,000
Sewer (Phase 1A) note payable	1,847,747	-	(108,691)	1,739,056
Sewer (Phase 1B) note payable	3,297,312	-	(173,543)	3,123,769
Total bonds and notes payable	<u>5,329,059</u>	<u>1,000,000</u>	<u>(290,234)</u>	<u>6,038,825</u>
Other liabilities:				
Compensated absences	8,690	2,100	-	10,790
Total other liabilities	<u>8,690</u>	<u>2,100</u>	<u>-</u>	<u>10,790</u>
Business-type activities long-term liabilities	<u>\$ 5,337,749</u>	<u>\$ 1,002,100</u>	<u>\$ (290,234)</u>	<u>\$ 6,049,615</u>

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 5: LONG-TERM DEBT (CONTINUED)

A description of the long-term debt related to business-type activities at June 30, 2003 is as follows:

Bonds and Notes Payable:

A loan agreement in the amount of \$1,000,000 at 4.68% for the East Hanger Project at the Auburn Municipal Airport was entered into at November 14, 2002.

The annual requirements to amortize the note is as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 40,000	\$ 46,835	\$ 86,835
2005	42,222	44,962	87,184
2006	46,667	42,984	89,651
2007	51,111	40,798	91,909
2008	55,556	38,405	93,961
2009 - 2013	344,444	148,832	493,276
2014 - 2018	420,000	57,765	477,765
Total	<u>\$ 1,000,000</u>	<u>\$ 420,581</u>	<u>\$ 1,420,581</u>

A loan agreement in the amount of \$200,000 at 4.78 percent for a fuel facility at the Auburn Municipal Airport was entered into at June 30, 2003.

The annual requirements to amortize the note is as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 8,651	\$ 8,413	\$ 17,064
2005	9,343	7,999	17,342
2006	10,035	7,553	17,588
2007	10,727	7,073	17,800
2008	11,419	6,560	17,979
2009 - 2013	67,475	23,952	91,427
2014 - 2017	<u>58,350</u>	<u>6,558</u>	<u>64,908</u>
	<u>\$ 176,000</u>	<u>\$ 68,108</u>	<u>\$ 244,108</u>

A State Revolving Fund Local Match Loan was entered for the construction of the water waste treatment plant (Phase 1B). The Federal government funded the City \$1,811,509. The City is to match \$362,311 for the Phase 1A project. Total loan payable of \$2,173,820 is to be repaid to the State Water Resources Control Board. The annual requirements to amortize the note is as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 108,691	\$ -	\$ 108,691
2005	108,691	-	108,691
2006	108,691	-	108,691
2007	108,691	-	108,691
2008	108,691	-	108,691
2009 - 2013	543,455	-	543,455
2014 - 2018	543,455	-	543,455
2019	<u>108,691</u>	<u>-</u>	<u>108,691</u>
	<u>\$ 1,739,056</u>	<u>\$ -</u>	<u>\$ 1,739,056</u>

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 5: LONG-TERM DEBT (CONTINUED)

Additionally a second State Revolving Fund Local Match Loan was entered in November, 1999. The Federal government funded the City \$2,892,368. The City is to match \$578,487 for the project. Total loan payable of \$3,470,855 is to be repaid to the State Water Resources Control Board. The annual requirements to amortize the note is as follows:

Year Ending June 30	Principal	Interest	Total
2004	\$ 173,543	\$ -	\$ 173,543
2005	173,543	-	173,543
2006	173,543	-	173,543
2007	173,543	-	173,543
2008	173,543	-	173,543
2009 - 2013	867,710	-	867,710
2014 - 2018	867,710	-	867,710
2019 - 2021	520,634	-	520,634
Total	\$ 3,123,769	\$ -	\$ 3,123,769

Compensated absences:

The liability for compensated absences is the accrued liability for earned but unused vacation and sick leave which will be paid to employees upon separation from City service. The reduction in the compensated absence liability is due to the reclass of the Transit fund from an enterprise fund type to a special revenue fund type. The compensated absence liability related to the Transit fund is included in the governmental activities for the current year. There is a fixed payment schedule for compensated absences. At June 30, 2003, the balance was \$10,790.

NOTE 6: DEFINED BENEFITS PENSION PLAN

A. Plan Description

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by statute. Copies of PERS' annual financial report may be obtained from their executive office - 400 P Street - Sacramento, CA 95814.

B. Funding Policy

Active plan members in PERS are required to contribute 7% (9% for safety employees) of their annual covered salary. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate for fiscal year 2002/2003 was 0% for miscellaneous employees and 19.782% for safety employees. The contribution requirements of the plan are established by statute. The City is required to contribute the remaining amounts necessary to fund the benefits of its members using the actuarial basis adopted by the PERS Board of Administrators.

C. Annual Pension Cost

For fiscal year 2002/2003, the City's annual pension cost of \$721,122 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.75% to 14.20% depending on age, service and type of employment. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6: DEFINED BENEFITS PENSION PLAN (CONTINUED)

D. Three Year Trend Information for PERS

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2001	\$ 390,078	100%	-
June 30, 2002	435,376	100%	-
June 30, 2003	721,122	100%	-

E. Funded Status of Plan

Miscellaneous Plan:

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
June 30, 2000	\$ 6,994,722	\$ 8,906,330	\$ (1,911,608)	127.3%	\$ 2,013,972	(94.9%)
June 30, 2001	8,107,368	9,588,105	(1,480,737)	118.3%	2,003,783	(73.9%)
June 30, 2002	8,781,679	8,656,713	124,966	98.6%	2,271,891	5.5%

Safety Plan:

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
June 30, 2000	\$ 7,303,228	\$ 8,016,192	\$ (712,964)	109.8%	\$ 1,284,606	(55.5%)
June 30, 2001	9,305,310	8,668,384	636,926	93.2%	1,546,555	41.2%
June 30, 2002	10,359,774	8,284,132	2,075,642	80.0%	1,713,661	121.1%

NOTE 7: INTERFUND TRANSACTIONS

Operating Transfers

The following is a summary of operating transfers by fund type as of June 30, 2003.

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General	\$ 114,356	\$ 220,989
Special Revenue	108,230	139,260
Debt Service	165,000	-
Capital Projects	-	-
Enterprise	<u>11,673</u>	<u>39,010</u>
Total	<u>\$ 399,259</u>	<u>\$ 399,259</u>

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 7: INTERFUND TRANSACTIONS (CONTINUED)

Interfund Receivables and Payables

All interfund receivable and payable balances are reflected in the financial statements as due to/from other funds for current balances and as advances to/from for non-current balances.

	Due From Other Funds	Due To Other Funds
General	\$ -	\$ 150,087
Enterprise	<u>150,087</u>	<u>-</u>
Total	<u>\$ 150,087</u>	<u>\$ 150,087</u>

NOTE 8: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the year ended June 30, 2003, was as follows:

Enterprise funds are established to account for the City operations that are financed and operated in a manner similar to private businesses; where the cost of goods and services to the general public is financed primarily through user charges. The funds included are:

Airport Operating - to account for the operation and management of the City Airport.

Sewer Operating - to account for the operations and management of the City sewer operations.

	Airport	Sewer	Total
Operating Revenue	\$ 69,896	2,982,607	3,052,503
Depreciation	287,601	374,664	662,265
Operating Income (Loss)	(458,622)	607,041	148,419
Operating Transfers In	11,673	-	11,673
Operating Transfers Out	(13,874)	(25,136)	(39,010)
Tax and Intergovernmental revenues	2,396,351	-	2,396,351
Net Income (Loss)	2,296,089	863,719	3,159,808
Property, Plant, and Equipment			
Additions	2,918,509	471,462	3,389,971
Retirements	-	-	-
Net Working Capital (Deficit)	1,069,293	4,193,125	5,262,418
Net Cash Provided (Used) by			
Operating Activities	(266,221)	1,102,850	836,629
Total Assets	10,775,004	14,172,404	24,947,408
Bonds and Other Long-term Liabilities:			
Current Portion	48,651	282,234	330,885
Long-Term Portion	1,127,349	4,580,591	5,707,940
Total Equity	9,208,109	9,226,730	18,434,839

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

There is no claims liability to be reported based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount for the loss can be reasonably estimated.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 9: RISK MANAGEMENT (CONTINUED)

There are no significant reductions in insurance coverage from prior years and there have been no settlements exceeding the insurance coverage for each of the past three years.

The City has joined together with other Cities in the State to participate in Northern California Cities Self Insurance Fund (NCCSIF). This joint venture is a public entity risk pool which serves as a common risk management and insurance program for liability and workers compensation coverage for member cities. The NCCSIF is composed of 19 member cities and is governed by a board of directors appointed by the member cities. The governing board has authority over budgeting and financing.

General Liability Coverage: Annual deposits are paid by member cities and are adjusted retrospectively to cover costs. Each member city, including Auburn, self-insures for the first \$25,000 of each loss. Participating cities share in loss occurrences in excess of \$25,000 up to a maximum of \$500,000. Premiums accrue based on the ultimate cost of the experience of the group of Cities.

Workers' Compensation Coverage: Annual deposits are paid by member cities and are adjusted retrospectively to cover costs. The City self-insured for the first \$25,000 of each loss and has purchased excess coverage with limits of \$5,000,000 per occurrences.

Upon termination of the JPA agreement, all property of the Authority will vest in the respective parties which theretofore transferred, conveyed or leased said property to the Authority. Any surplus of funds will be returned to the parties in proportion to actual balances to each equity.

The Authority establishes claims liabilities based on estimates of the ultimate costs of claims (including future claims settlement expenses) that have been reported but not settled, plus estimates of claims that have been incurred but not reported. Because actual claim costs depend on various factors, the claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision of inflation is implicit in the calculation of estimated future claims costs. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The participants at June 30, 2003 were as follows:

Anderson	Folsom	Marysville	Rio Vista
Auburn	Galt	Nevada City	Rocklin
Colusa	Gridley	Oroville	Willows
Coming	Jackson	Paradise	Willows
Dixon	Lincoln	Red Bluff	

The City's equity investment in the NCCSIF of \$640,674 is recorded in the general fund as a prepaid self insurance equity.

The following is a summary of the latest financial information of the NCCSIF for the liability and workers' compensation program for the fiscal year ended June 30, 2003:

	Total Joint Venture	City of Auburn's Share
Total Revenues	\$ 13,408,026	\$ 319,688
Total Expenses	(13,835,738)	(220,721)
Excess of Revenue Over Expenses	(427,712)	98,967
Fund Equity - July 1, 2002	5,809,763	541,707
Prior Period Adjustment	1,146,131	-
Fund Equity - July 1, 2002 (Restated)	6,955,894	541,707
Fund Equity - June 30, 2003	<u>\$ 6,528,182</u>	<u>\$ 640,674</u>

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 10: JOINT AGENCIES

The Northern California Cities Self Insurance Fund (NCCSIF) is a joint powers authority organized to provide for a banking plan whereby the member cities can share in the administrative costs of providing liability and workers' compensation insurance. The NCCSIF is governed by the Board of Directors appointed by the member cities.

Complete audited financial statements can be obtained from the Claims Administrator, 574 Manzanita Avenue, Suite 12, Chico, California 95626.

The California Joint Powers Insurance Risk Management Authority (CJPRMA) is a joint power authority organized to provide excess coverage for its members. The CJPRMA is governed by a board of directors representing its member cities.

Complete audited financial statements can be obtained from the Claims Administrator, 574 Manzanita Avenue, Suite 12, Chico, California 95626.

The California Transit Insurance Pool (CTIP) is a joint powers authority organized to provide liability coverage for its members. The CTIP is governed by a board of directors representing its member agencies. CTIP is composed of 32 member agencies.

Completed audited financial statements can be obtained from the Claims Administrator, 574 Manzanita Avenue, Suite 12, Chico, California 95626.

NOTE 11: COMMITMENTS AND CONTINGENCIES

Contingencies

The City has received state grants for specific purposes that are subject to review and audit by the state government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

Construction Commitments

At June 30, 2003, the City had construction contracts outstanding of approximately \$899,659. These projects should be completed within the next year and the cost will be recorded at that time.

NOTE 12: POST CLOSURE

The City of Auburn has post closure responsibility for one landfill site (located on the Auburn Municipal Airport). State and federal laws and regulations require that the City of Auburn place a final cover over its closed landfill and perform certain maintenance and monitoring functions at the landfill site for thirty years following its closure. Closure procedures have been performed and post closure activity is recorded in a trust fund. Post closure maintenance activities are funded by a 4.71 percent surcharge on refuse collection fees. The estimated liability for post closure care costs is estimated to be \$2,076,225, as of June 30, 2003. The estimate of post closure care costs is based on the amount that would be paid if all equipment, facilities, and services required to monitor and maintain the landfill were acquired as of June 30, 2003. However, the actual costs may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The City of Auburn is required by state and federal laws and regulations to make annual contributions to finance post closure care costs. The costs of these procedures is funded on a pay as you go basis. The City has not adopted a pledge of revenue to fund these costs. At June 30, 2003, the City was holding bank deposits and federal securities in the amount of \$1,433,180 for this purpose. It is anticipated that future costs will be financed in part from earnings on these investments, and the continuation of the franchise fee surcharge. The net present value of the estimated future surcharge fees and interest is \$1,681,086. The remaining portion of estimated post closure maintenance costs and any additional costs that might arise from changes in post closure requirements (due to changes in technology or more rigorous environmental regulations) may need to be covered by an increase in the rate of the franchise surcharge assessed against refuse collection fees.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 12: POST CLOSURE (CONTINUED)

Additionally, the City recognizes that there is a risk of future landfill gas migration or groundwater contamination, which could result in bodily injury and/or property damage liability claims against the City. Accordingly, the City has secured a "third party pollution liability" insurance agreement (underwritten by United Capital Insurance Company) to pay for any damages arising out of claims which might result from future pollution conditions that might result from the landfill site. This insurance coverage applies to groundwater contamination from leachates, but excludes remediation of landfill gas that might migrate from the closed landfill site. The aggregate coverage limit is \$1,500,000, and there is a policy deductible of \$100,000 for each pollution condition.

**BUDGETARY
INFORMATION**

CITY OF AUBURN
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note B)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 4,520,680	\$ 4,520,680	\$ 4,520,680	\$ -
Resources (inflows):				
Taxes	4,577,083	4,770,241	4,707,424	(62,817)
Franchises	413,423	430,974	501,177	70,203
Licenses and permits	284,800	383,225	427,241	44,016
Fines and forfeitures	81,125	95,125	112,573	17,448
Interest Income	145,000	160,000	258,863	98,863
Property rents and leases	291,350	291,350	253,311	(38,039)
Other governmental agencies	1,027,033	1,091,083	1,053,459	(37,624)
Service charges	147,855	197,145	221,309	24,164
Other revenues	34,973	34,973	18,240	(16,733)
Transfers from other funds	119,972	119,972	114,356	(5,616)
Amounts available for appropriation	\$ 11,643,294	\$ 12,094,768	\$ 12,188,633	\$ 93,865
Charges to appropriations (outflows):				
General government:				
City council	60,496	65,313	67,943	(2,630)
City manager	202,375	237,168	243,033	(5,865)
Business development coordinator	72,437	74,937	70,906	4,031
Community development	320,235	331,845	271,455	60,390
City clerk	97,354	108,854	110,106	(1,252)
Finance and personnel	309,723	315,589	325,148	(9,559)
City attorney	88,500	88,500	79,125	9,375
Insurance programs	315,500	348,000	331,901	16,099
Public Safety:				
Police	2,644,776	2,669,561	2,600,341	69,220
Fire	943,763	980,315	1,025,404	(45,089)
Building inspection	182,717	204,789	207,958	(3,169)
Public works:				
Building maintenance	343,102	351,717	315,743	35,974
Public services counter and support	295,212	325,279	323,935	1,344
Engineering and administration	185,940	237,758	274,529	(36,771)
Maintenance	573,607	599,452	582,911	16,541
Corporation yard shop	176,866	182,609	173,169	9,440
Industrial park maintenance	-	-	-	-
Nondepartmental:				
Support to community events	184,929	214,579	128,921	85,658
Transfers to other funds	258,274	263,433	230,165	33,268
Contingency	84,193	191,775	7,420	184,355
Total charges to appropriations	7,339,999	7,791,473	7,370,113	421,360
Budgetary fund balance, June 30	\$ 4,303,295	\$ 4,303,295	\$ 4,818,520	\$ 515,225

See accompanying notes to required supplementary information on budgetary accounting and control.

CITY OF AUBURN
BUDGETARY COMPARISON SCHEDULE - TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note B)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ -	\$ -	\$ 112,060	\$ 112,060
Resources (inflows):				
Taxes	570,000	544,834	818,357	273,523
Interest Income	10,000	10,000	64,290	54,290
Other governmental agencies	526,253	526,253	9,964	(516,289)
Transfers from other funds	-	-	-	-
Amounts available for appropriation	\$ 1,106,253	\$ 1,081,087	\$ -	\$ (76,416)
Charges to appropriations (outflows):				
Public works:				
Engineering and administration	-	-	-	-
Maintenance and construction	1,442,186	1,417,020	1,004,671	412,349
Nondepartmental:				
Contingency	-	-	-	-
Total charges to appropriations	1,442,186	1,417,020	1,004,671	412,349
Budgetary fund balance, June 30	\$ (335,933)	\$ (335,933)	\$ -	\$ 447,993

See accompanying notes to required supplementary information on budgetary accounting and control.

CITY OF AUBURN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION ON
BUDGETARY ACCOUNTING AND CONTROL
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A: GENERAL BUDGET POLICIES

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds and Capital Project Funds. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) and consistent with basis used for financial reporting.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Finance Director submits to the City Council a proposed operating budget for the year commencing the following July 1. The operating budget proposes expenditures and the means of financing them.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to July 1 (when possible), the budget is legally enacted through passage of a formal resolution.
4. Any revisions which alter the total expenditures of any fund must be approved by the City Council

Budgeted amounts are as originally adopted and as subsequently revised by the City Council.

All unused appropriations for budgeted amounts lapse at the end of the year.

NOTE B: BUDGET-TO-ACTUAL RECONCILIATION

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

	<u>General Fund</u>	<u>Transportation Fund</u>
Sources/inflows of resources:		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 12,188,633	\$ 1,004,671
Differences - Budget to GAAP:		
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(4,520,680)	(112,060)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	<u>(114,356)</u>	
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 7,553,597</u>	<u>\$ 892,611</u>
Uses/outflows of resources:		
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 7,370,113	\$ 1,004,671
Differences - Budget to GAAP:		
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(220,989)</u>	
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 7,149,124</u>	<u>\$ 1,004,671</u>